



MEMORANDUM / NOTE DE SERVICE

Memo to the Parliamentary Secretary

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TO : Parliamentary Secretary

FROM : Paul Rochon

SUBJECT: Meeting with Genworth Canada
OBJET

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PROTECTED B
Originator / Auteur Sara Barnes
Our file / Notre référence
Your file / Votre référence 2018FIN470114
Date MAR 16 2018

For information in advance of your upcoming meeting with Genworth Canada.

Issue

You will be meeting with the following Genworth officials: Winsor Macdonell, Senior Vice President and General Counsel; Kris Barnier, Vice President Government Relations; and Milton Chan, Hansell McLaughlin Advisory. Biographies are attached as Annex B.

We have provided a summary of these and other topics Genworth may wish to raise with you.

Key Messages:

- The Government is concerned with access, stability and competition with respect to housing.
- The Government is closely monitoring the impact of recent housing measures.
- We value your continued engagement in the policy-making process.

Background

Mortgage insurance in Canada is offered by two private insurers, Genworth Canada and Canada Guaranty, as well as Canada Mortgage and Housing Corporation (CMHC), a federal Crown corporation whose obligations are fully backed by the Government of Canada. Genworth Canada is the larger of the two private mortgage insurers.

To allow private insurers to effectively compete with CMHC, their obligations to lenders are backed by the Government.¹ To manage risks arising from this guarantee and promote stability, the Minister of Finance sets limits on the types of loans that can be insured. This authority stems from the *Protection of Residential Mortgage and Hypothecary Insurance Act*, which also imposes other conditions on the private insurers.

Housing Market Activity

Nationally, Multiple Listing Service (MLS) average home prices were up 2.4 per cent in January 2018, compared to the same quarter in the previous year. National sales volumes declined 7 per cent during that same period.

As of February 2018, year-over-year sales activity in the Greater Toronto Area was down 35 per cent, while year-over-year growth in average prices fell to -12 per cent.

Similarly, sales activity in Metro Vancouver was down by 9 per cent year-over-year as of February 2018, compared to a 19 per cent year-over-year increase in January. The MLS House Price Index increased by 27 per cent for apartments, compared to a year ago, while detached homes increased by 8 per cent in Metro Vancouver.²

Issues that May be Raised by Genworth

Impact of Recent Mortgage Rule Changes

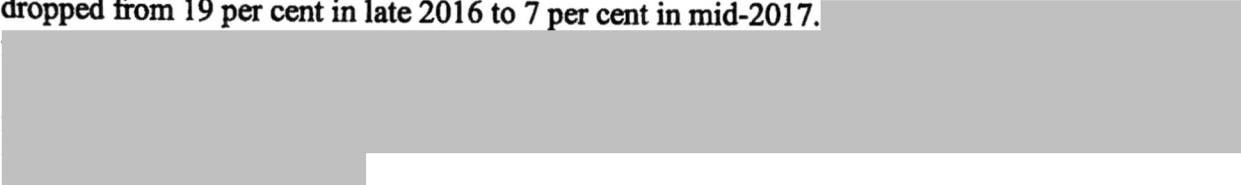
In October 2016, the Minister of Finance announced changes to regulations governing mortgage insurance eligibility criteria to address concerns related to high household indebtedness and imbalances in the housing market. The changes included: (1) ensuring all new insured mortgages (including fixed-rate mortgages with terms of 5 years or greater which were previously excluded) undergo a mortgage rate stress test, and (2) requiring portfolio-insured loans and other discretionary low loan-to-value (LTV) ratio insured loans to meet eligibility criteria that previously only applied to high LTV loans. These criteria include maximum home purchase prices of \$1 million, debt-service ratio limits, and no refinances.



¹ In the event that private mortgage insurers are unable to make insurance payouts to lenders, the Government will back their obligations, subject to a lender deductible of 10 per cent of the original loan amount.

² These preliminary data are seasonally and quality *unadjusted*.

Evidence to date suggests the measures have largely had their intended impact in reducing the prevalence of highly indebted borrowers who are most vulnerable to changing economic conditions. The Bank of Canada's November 2017 *Financial System Review* notes that the proportion of high-ratio originations with a loan-to-income ratio greater than 450 per cent dropped from 19 per cent in late 2016 to 7 per cent in mid-2017.




Genworth may share some more recent data on the impact of the changes at your meeting. On February 6, 2018, Genworth released its fourth quarter and full year 2017 results, highlighting a 12 per cent reduction in new transactional insurance written (e.g. insurance obtained at the time a property is purchased and paid for by the borrower, mostly for high LTV mortgages).³ Genworth notes that the decrease was primarily due to a smaller high LTV origination market following the introduction of an insured mortgage rate stress test in the fourth quarter of 2016.

Year-over-year, premiums written from transactional insurance of \$157 million increased 5 per cent due to the relatively higher level of premiums written in recent years. This increase is primarily due to a higher average premium rate, following Genworth's March 17, 2017 premium rate increase.

Changes to Guideline B-20

On October 17, 2017, the Office of the Superintendent of Financial Institutions (OSFI) published the final version of its revised *Guideline B-20: Residential Mortgage Underwriting Practices and Procedures*. The revised guideline includes several policy changes, notably a mortgage rate stress test for uninsured mortgages.



Lender Risk Sharing

On October 21, 2016, the Government released a consultation paper on lender risk sharing for insured mortgages. The formal consultation process closed on February 28, 2017. Canada's system of 100 per cent mortgage default insurance, backed by the government, is unique. A lender risk sharing policy would aim to rebalance risk in the housing system so that lenders retain a meaningful, but manageable, level of exposure to default risk for insured mortgages.

s.18(d)

s.21(1)(a)

³ Compared to the same quarter in the prior year.

s.21(1)(b)

[REDACTED]

The purpose of the consultation process was to seek views on these issues, [REDACTED]
[REDACTED] No decisions have been made on next steps for lender risk
sharing at this point.

[REDACTED]

s.21(1)(a)

s.21(1)(b)

Annex A: Suggested Responses

Responsive – if asked about impacts of October 2016 measures

- Our analysis suggested the measures would have a modest drag on housing activity in the short term, and that these would dissipate over time as buyers adjust to the new rules.
- By targeting safer forms of lending, these measures are promoting balanced economic growth and long-term stability in the housing market and economy.

Responsive – if pressed about OSFI's Guideline B-20

- The Office of the Superintendent of Financial Institutions is an arm's length, independent agency that supervises federally regulated financial institutions.
- These measures will help ensure homebuyers are able to afford their homes if economic circumstances change, promoting the stability of the Canadian housing market and economy over the long term.

Responsive – if asked whether more measures are being considered

- The Government is concerned with access, stability and competition with respect to housing.
- The Government continues to closely monitor the housing market.

Annex B: Biographies – Genworth Canada

Winsor Macdonell, Senior Vice President and General Counsel




Winsor Macdonell is responsible for all of the company's legal and compliance matters, as well as government relations. Winsor joined the Company in 1999. Prior to joining the Company, he spent three years in the life and property and casualty industry. Winsor received an honours Bachelor of Commerce degree from Queens University in 1988 and his LL.B. from Dalhousie University in 1992.

Kris Barnier, Vice President Government Relations

Kris Barnier is Genworth Canada's Vice President of Government Relations. Kris joined the Company in 2012. Prior to joining the Company, he served in the Offices of the Premier of Ontario, Minister of Finance and Deputy Premier of Ontario, and the Office of the Attorney General/Minister of Aboriginal Affairs of Ontario. He has also held senior Government Relations and Policy roles with the Toronto Board of Trade and Canadian Automobile Association. Kris received his honours Bachelor of Arts degree in Political Studies from Queen's University in 1999 and his Post Diploma Certificate in Public Relations from Humber College in 2000.

Milton Chan, Hansell McLaughlin Advisory

Milton Chan is a Counsel at Hansell LLP and a Senior Consultant at Hansell McLaughlin Advisory. Milton has extensive public policy, government and regulatory experience. A seasoned lobbyist and government relations consultant, Milton is a trusted advisor to clients in various sectors, providing strategic political and policy advice across a broad range of issues.

 Department of Finance Canada Ministère des Finances Canada	
For Signature by / Information of À signer par / Pour l'information de Parliamentary Secretary	
Prepared by (name/initials/division) Préparé par (nom/initiales/division) Sara Barnes/David LeDrew	
In consultation with (name/initials/branch(es)/division(s)) En consultation avec (nom/initiales/direction(s)/division(s))	
Approved by / Approuvé par	
Director Directrice / Directeur	Cynthia Leach
Director General Directrice générale / Directeur général	Robert Sample
Associate Assistant Deputy Minister Sous-ministre adjoint délégué	Annette Ryan
Assistant Deputy Minister Sous-ministre adjoint	Leah Anderson
Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	Rob Stewart
Associate Deputy Minister Sous-ministre déléguée	Ava Yaskiel
Deputy Minister Sous-ministre	Paul Rochon
Remarks Remarques:	
SUBJECT / OBJET: GENWORTH and PS	
File no. No de dossier 2018FIN470114	Date MAR 15 2018

Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	(Sign on behalf of DM) (Signer au nom du SM)	<input type="checkbox"/>
Associate Deputy Minister Sous-ministre déléguée	(Sign on behalf of DM) (Signer au nom du SM)	<input type="checkbox"/>
Assistant Deputy Minister Sous-ministre adjoint(e)	(Sign on behalf of DM) (Signer au nom du SM)	<input checked="" type="checkbox"/> <i>C.L.</i>